



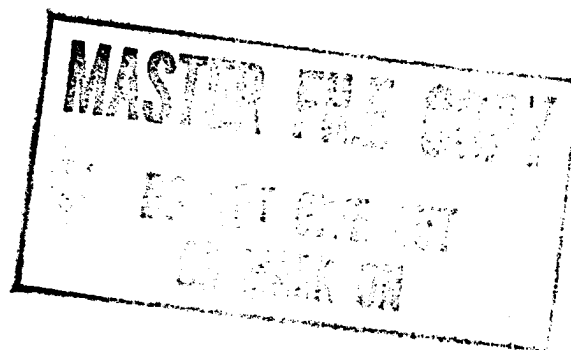
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China: Agriculture in 1983 and Prospects for 1984

An Intelligence Assessment



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June 1984

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China: Agriculture in 1983 and Prospects for 1984

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An Intelligence Assessment

This paper was prepared by [redacted]

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queries are welcome and may be directed to the
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**China:
Agriculture in 1983
and Prospects for 1984**

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Key Judgments

*Information available
as of 14 June 1984
was used in this report.*

China's agriculture in 1983 continued the five-year trend of rising output, spurred by exceptionally good weather, increased inputs, and the continued expansion of personal economic incentives. The total value of agricultural output rose almost 10 percent last year to a record \$158 billion. Grain production rose almost as rapidly, reaching a record 387 million tons. Cotton production continued its double-digit growth to 4.6 million tons, leading to the end of cotton rationing and a preliminary move into the raw cotton export market. Beijing also cut back hemp and oil-bearing crops in order to reduce large existing stocks.

Beijing's determination to continue peasant economic incentives was underscored early this year with the issuance of Central Document No. 1, which:

- Extends peasant land contracts from the current three years to at least 15 years in an effort to encourage peasants to increase investment in their land.
- Permits peasants to subcontract their land to skilled farmers. Efficiency will be improved by allowing specialized production.
- Encourages individuals or cooperatives to pool funds and form large rural enterprises.
- Allows peasants to market their agricultural goods after state quotas have been satisfied.
- Provides for the formation of small market towns to employ peasants who have subcontracted their land.
- Exhorts cadre members to undertake more training and accept personal responsibility for their work.

US grain sales to China were halved last year to 3.8 million tons, mainly because of a dispute over textile import quotas. China's total grain imports fell only 2.3 million tons, however, as Canadian and Argentine sales expanded. This year, purchases from each of the major exporting countries should approach pre-1983 levels. China will probably not, however, take delivery by yearend of all of the 8.2 million tons of US grain required to fulfill the Long-Term Grain Agreement. China's unusual purchasing tactics this year, moreover, make it difficult to determine their current level of grain purchases. The Chinese will probably want to negotiate a new grain agreement with the United States to replace the current pact, which expires at yearend, but improved domestic food supply and declining world prices will prompt Chinese buyers to drive a hard bargain.

At this early date, prospects for China's 1984 winter grain harvest appear good.

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China: Agriculture in 1983 and Prospects for 1984

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Gains in 1983

Agriculture posted a second consecutive year of dramatic growth in 1983. Grain production, the key indicator of the agricultural economy, jumped over 9 percent to a record 387.3 million tons, according to figures released in April by the State Statistical Bureau (SSB). Other sectors had even more impressive gains, aided by an increasing number of peasants engaged in rural industry and by the implementation of the responsibility system¹ in forestry production (see table 1). The total value of agricultural production grew by 9.5 percent, more than double the goal of 4 percent for the year.

Living standards for Chinese peasants continued to improve, although they remain well below the world average. Per capita income rose 15 percent to an average of \$157 last year. The gap with urban residents continued to narrow as urban incomes rose only 6 percent to an average of \$266. Living expenses in rural areas rose 13 percent to \$126 leaving an average of \$31 per person for savings or investment. Per capita income figures are beginning to have less significance, however, as peasant incomes diverge under the responsibility system. The Chinese press has carried numerous stories of exceptional peasant families that, having reaped large profits from specialized production last year, have yearly incomes in excess of \$5,000. Some have purchased trucks or cars, and one even bought an ultralight airplane.

Production increased last year because of several factors, including the further relaxation of rural policies under the responsibility system. The production and use of inputs also rose (see table 2). Demand for these inputs continued to exceed supply, with the exception of conventional tractors. Peasants in most areas have preferred to purchase their own hand, or garden type, tractors since the advent of the responsibility system. Over 40 percent of the tractors in use

Table 1

China: Agricultural Output, 1983

	Value (billion 1983 US \$)	Percent Growth From 1982
Total	157.8	9.5
Farm crops	98.2	8.3
Animal husbandry	24.5	3.9
Rural industry	25.5	19.6
Forestry	6.4	10.2
Fishery	3.2	8.7

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last year were privately owned. The exceptionally good weather last year also contributed. Only isolated areas in central and southern China suffered damage from early summer floods, which were overplayed in the Chinese and Western press.

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Grain Crops

The SSB's annual communique reports total grain production for 1983 at 387.3 million tons, rising 9.2 percent or roughly 34 million tons, the largest increase in PRC history.² Since the adoption of the responsibility system in late 1978, the Chinese have increased their total grain production by 83 million tons—more than the entire annual grain production of Canada and Australia combined. And despite a 2.6-million-ton decline in net grain imports last year, per capita grain availability rose 26 kilograms to a record 391 kilograms.³

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² Last year's communique reported 1982 production at 353.4 million tons, implying an increase in 1983 of 9.6 rather than 9.2 percent. The Chinese evidently have readjusted 1982 production up to 354.5 million tons.

³ Based on China's published population figures.

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Table 2
China: Agricultural Inputs, 1983

	Amount 1983	Percent Change From Previous Year				
		1979	1980	1981	1982	1983
Produced						
Chemical fertilizer ^a (million metric tons)	13.79	22.6	15.7	0	3.2	7.9
Nitrogen (million metric tons)	11.09	15.5	13.3	-1.3	3.7	8.6
Phosphate (million metric tons)	2.66	75.9	26.9	8.7	1.2	5.1
Potash (metric tons)	29,000	-23.8	25.0	27.5	-3.8	16.0
Chemical insecticide (metric tons)	331,000	0.8	0	-9.9	-5.6	-27.6
Conventional tractors (units)	37,000	10.5	-22.2	-45.9	-24.5	-7.5
Hand tractors (units)	498,000	-1.9	-31.4	-8.7	49.7	67.1
In use						
Conventional tractors (units)	841,000	19.7	11.7	6.3	2.5	3.5
Hand tractors (million units)	2.75	21.7	12.2	8.7	12.3	20.2
Rural electricity (billion kilowatt-hours)	43.5	11.7	13.5	15.3	7.3	9.6
Irrigation pumps (million horsepower)	78.5	8.6	4.8	0.5	2.3	2.3
Chemical fertilizer ^a (million metric tons)	16.6	19.0	18.4	5.2	13.4	9.7

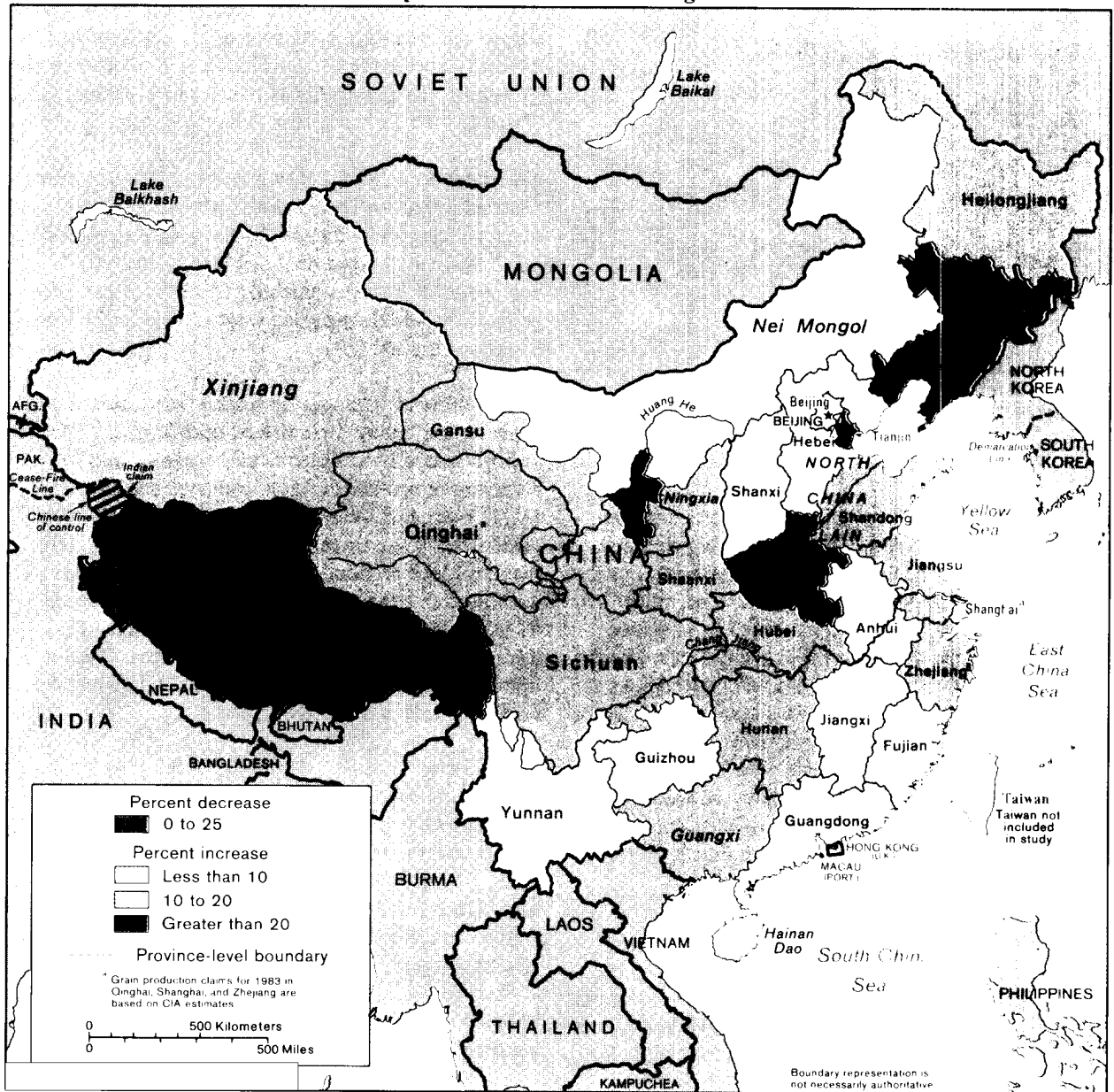
^a Nutrient content.

Production gains last year were well distributed geographically (see figure 1). Wheat production posted the largest increase, benefiting from a larger sown area and good weather (see table 3). Henan's impressive showing reflects the fact that it is China's premier wheat producer. The output of miscellaneous grains, primarily corn, made the second-largest gain. Jilin and Liaoning grow predominantly corn. Jilin's harvest last year rose a remarkable 48 percent from record 1982 levels. Reporting for the northeast provinces has noted that 1983 was the first year these provinces had fully implemented the responsibility system; less mention was made of the nearly ideal weather there.

The only province suffering any real problems last year was Xizang. The grain harvest there dropped 20 percent, the second straight decline because of drought. The region's economy, based primarily on livestock production, was further damaged last year by livestock disease, insects, and a shortage of inputs. Problems supplying the remote province were compounded by limited ground transportation, leading the State Council to order 100 tons of livestock fodder airlifted to the province.

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Figure 1
Claimed 1983 Grain Production Compared With 1979-82 Average



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Table 3 *Million metric tons*
China: Grain Production, 1979-83

	1979	1980	1981	1982	1983
Total grain	332.1	320.6	325.0	353.4	387.3
Rice	143.8	139.9	144.0	161.2	168.9
Wheat	62.7	55.2	59.6	68.4	81.4
Potatoes ^a	28.5	28.7	26.0	26.7	29.2
Soybeans	7.5	7.9	9.3	9.0	9.8
Miscellaneous	89.7	88.9	86.1	88.1	98.0

^a For comparability, tubers are converted to grain equivalent by the weight ratio of 5 to 1.

Transport problems for the rest of the country centered on how to purchase, move, and store the immense increase in grain production. Grain sales to the state jumped 35 percent to 97 million tons, filling all grain warehouses and forcing authorities in some areas to pay peasants to store the grain earmarked for state procurement. In some areas local authorities simply stopped purchasing above-quota grain, a move strictly prohibited by Beijing because of its dampening effect on peasant enthusiasm. The large purchases turned out to be a mixed blessing for the leadership, however, as Finance Minister Wang Bingqian attributed most of last year's above-plan deficit to the large agricultural purchases.

Nongrain Enterprises

Cotton production rose sharply in 1983 because of excellent yields in the North China Plain (see table 4). The continued large increase in cotton production—coupled with an increase in synthetic fiber production, reduced domestic demand for cotton fabric, and tighter restrictions by textile-importing countries—has led to a growing stockpile of raw cotton. Cotton rationing was abolished in December, after 30 years. China also has begun exporting some raw cotton. Initial interest was low, however, because the size of Chinese bales did not meet international standards and buyers were unfamiliar with the quality of Chinese cotton. Subsequent offerings are expected, and buyers may be more interested once the quality is known. And Chinese officials have stated they plan to

increase bale size to international standards. Whether China will remain a cotton exporter, and thus a competitor with the United States, will depend on the impact of new procurement policies (see section, "New Cotton Procurement Policy").

The reductions in oil-bearing crops and hemp were planned to reduce large existing stocks. Poor procurement policies were blamed for tea production leveling off. Sugarcane output declined largely because of poor weather but was partially offset by sugar beet production, which had good weather and an expansion of the sown area.

The number of live hogs at yearend declined slightly, probably reflecting a continued decline in the number of hogs owned by collectives and peasants moving into other, more profitable sideline enterprises (see table 5). Efficiency of the livestock industry improved, as evidenced by the increase in meat supplies. Mixed livestock feed production rose 17 percent last year to 7 million tons. Many individual producers increased their production of freshwater fish last year to take advantage of a 13.4-percent rise in prices. Overall, however, purchase prices for agricultural commodities increased only 4.4 percent in 1983.

1983 Trade

The dispute over textile quotas highlighted Sino-US agricultural trade in 1983. Early in the year China announced an embargo on US soybeans, cotton, synthetic fibers and that it was reducing the purchase of other US agricultural commodities because of US textile import quotas. The ban on soybeans and cotton was largely symbolic; bumper Chinese harvests were already reducing the need for imports. US cotton shipments totaled only \$2 million for the year, declining for the third straight year (see table 6).

The ban had its greatest impact on sales of US wheat, for which China had been the largest market. China's retaliation was facilitated by its own consecutive record harvests and by large supplies and attractive prices in other exporting countries. This allowed

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Table 4
China: Selected Agricultural Production, 1981-83

	Amount			Average Annual Percent Change ^a			
	1981	1982	1983	1958-80	1981	1982	1983
Gross value (<i>billion 1970 yuan</i>)	172.0	190.9	209.0	3.2	5.7	11.0	9.5
Grain (<i>million metric tons</i>) ^b	325.0	353.4	387.3	2.2	1.4	8.7	9.2 ^c
Cotton (<i>million metric tons</i>)	3.0	3.6	4.6	2.2	9.6	21.3	28.9
Oil-bearing crops (<i>million metric tons</i>)	10.2	11.8	10.6	2.7	32.7	15.8	-10.7
Sugarcane (<i>million metric tons</i>)	29.7	36.9	31.1	3.5	30.1	24.3	-15.7
Sugar beets (<i>million metric tons</i>)	6.4	6.7	9.2	6.4	0.9	5.5	36.8
Jute, ambary hemp (<i>million metric tons</i>)	1.3	1.1	1.0	5.8	14.8	-15.9	-3.9
Silk cocoons (<i>thousand metric tons</i>)	311.0	314.0	340.0	5.8	-4.6	1.0	8.2
Tea (<i>thousand metric tons</i>)	343.0	397.0	401.0	4.4	12.8	16.0	0.8
Aquatic products (<i>million metric tons</i>)	4.6	5.2	5.5	1.6	2.4	11.9	5.9
Hogs (<i>million head, yearend</i>)	293.7	300.8	298.5	3.3	-3.8	2.4	-0.7
Sheep and goats (<i>million head, yearend</i>)	187.7	181.8	167.0	2.8	0.2	-3.2	-8.2
Large animals (<i>million head, yearend</i>)	97.6	101.1	103.5	0.6	2.5	3.6	2.3

^a Based on unrounded numbers.

^b Includes potatoes, converted on a grain equivalent basis of 5 to 1.

^c Chinese claim; inconsistent with 1982 production claims, which may have since been revised.

Beijing to make up much of the shortfall by increasing purchases from Canada and Argentina (see figure 2). The Chinese had in fact been cutting back on purchases of the relatively expensive US wheat since late in 1982, several months before the embargo was declared. []

The embargo was lifted in early September, but purchases did not resume in time to meet the 6-million-ton minimum of grain called for in the Long-Term Grain Agreement. Last year was the third year of the four-year pact, and the first time Chinese purchases had fallen below the minimum. []

New Policies for Peasants

Late last year Beijing initiated a series of directives, conferences, and press campaigns calling for a further

relaxation of rural policies. Several factors probably combined to cause the leadership to press for the new rural policies. Bumper harvests, the fifth in a row since economic reforms were initiated, encouraged the leadership to give an even freer rein to the sector of the economy that has been the most responsive to and supportive of its economic reforms. Other nationwide campaigns, notably party rectification and the crack-down on crime, also created the proper atmosphere for requiring more personal economic responsibility, particularly from rural cadre. Moreover, the success of some rural reforms required other changes. For example, the increased volume of agricultural production

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Table 5
China: Fishery and Livestock Production,
1982 and 1983^a

	Amount		Percent Change From Previous Year	
	1982	1983	1982	1983
Total aquatic products (thousand metric tons)	5,155	5,460	11.9	5.9
Freshwater	1,559	1,840	13.6	18.0
Marine	3,596	3,618	11.2	0.6
Total livestock products (thousand metric tons)	13,508	14,021	7.1	3.8
Pork	12,718	13,161	7.0	3.5
Beef	266	315	6.9	18.6
Mutton	524	545	10.1	4.0
Total livestock (thousand head, yearend)	583,700	568,990	0.8	-2.5
Hogs	300,780	298,540	2.4	-0.7
Large animals	101,130	103,500	3.6	2.3
Sheep and goats	181,790	166,950	-3.2	-8.2

^a Totals may not add because of rounding.

has required the liberalization of commercial and transport policies. The state's existing storage, transport, and commercial systems simply cannot handle all of the goods. []

Most of the new policies are embodied in Central Document or Zhongfa No. 1 for 1984. For the last three years, the party has devoted its first important directive to a liberalization of rural and agricultural policies. This year, local commentaries have cited Central Document No. 1 as a guideline for all sectors of the economy (see inset, page 8). []

Although the document was not published until June, Beijing made extraordinary efforts to publicize its main points. In January and February, *Peoples Daily* carried articles or commentaries promoting the policies almost daily. Every province has called meetings to study the document, and it is clear the new guidelines are being disseminated to the lowest level. A broadcast from Hainan Island, for example, indicated that the contents of the document had been

Table 6 *Million US \$*
China: Imports of US Agricultural Commodities,
1978-83

	1978	1979	1980	1981	1982	1983
Total	577	995	2,320	2,124	1,742	796
Wheat	250	214	1,039	1,269	1,047	378
Corn	112	269	225	62	189	158
Soybeans	15	107	155	130	63	0
Soybean oil	26	36	56	17	0	0
Cotton	157	357	701	464	178	2
Timber and pulp	4	4	110	168	237	252
Other	13	8	34	14	28	6

publicized by local meetings, blackboard and wall newspapers, posters, radiobroadcasts and, in some localities, have been rewritten into folk songs and short operas for touring performances. []

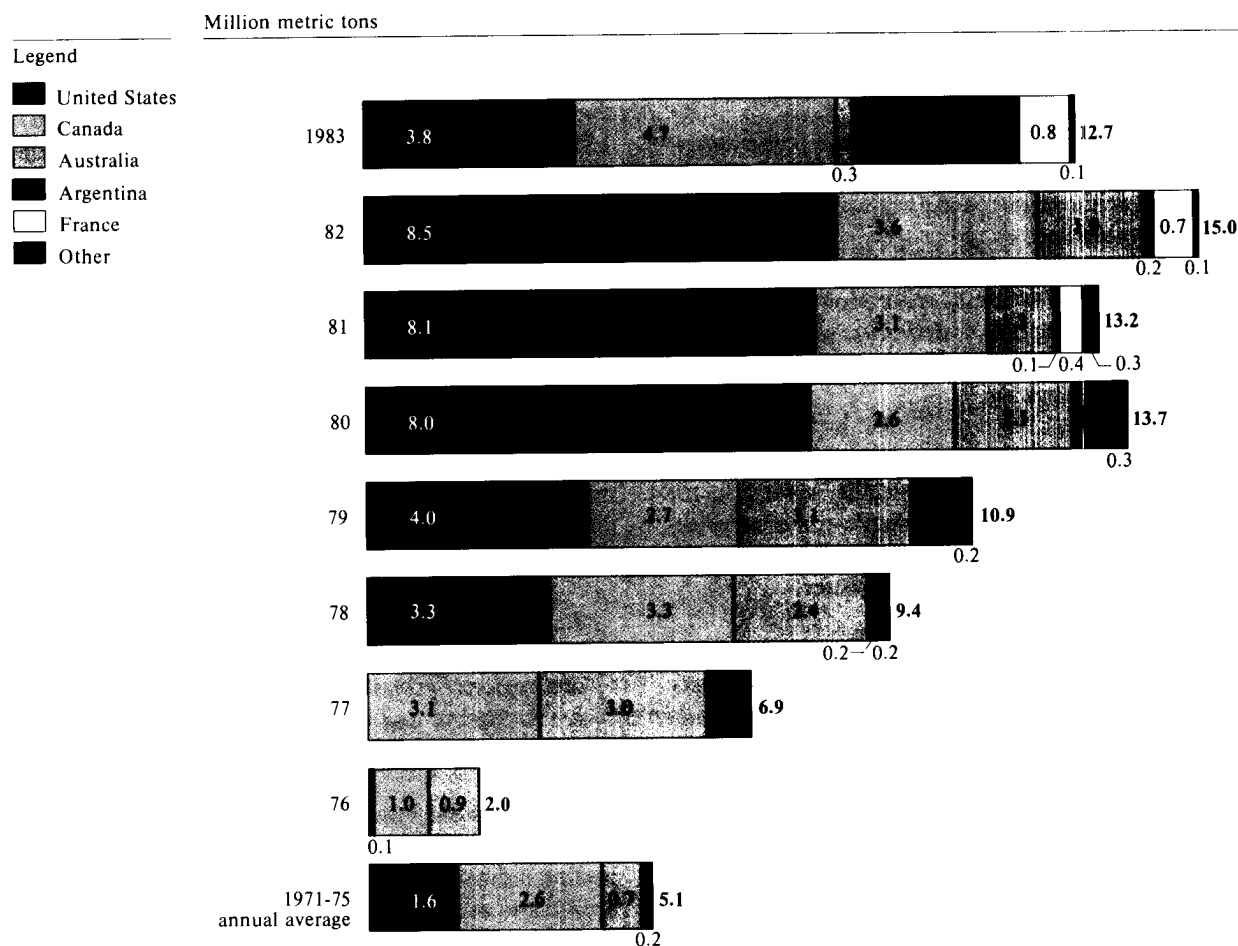
Old Objections From Cadre

Cadre resistance to agricultural reform, though diminishing, has still not ceased. US Consulate officials traveling in Guangxi Province early this year found cadre who were firmly opposed to the new reforms and would not acknowledge that the new policies would be implemented in their areas. This typifies the belief of many cadre, especially at middle and grass-roots levels, that the reforms are not truly socialist and eventually will be discarded. Other cadre have more personal reasons for disliking the reform policies. Many stand to lose their influence over peasants and some, even their jobs. The crackdown on economic crime and the party rectification campaign have both led to numerous transfers, demotions, and dismissals of corrupt or politically unsupportive rural leaders. There are even some preliminary indications that rural economic cadre will be held accountable if their localities do not show a substantial increase in peasant income within two or three years. []

These actions by Beijing will probably polarize cadre response to the new policies. Exposed or fearful cadre

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Figure 2
China: Imports of Grain, by Source, 1976-83



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Central Document No. 1 for 1984—Summary of Major Points

1. Past policies are lauded as improving agriculture, and readers are encouraged to continue following the state's leadership.

Deng Xiaoping and Hu Yaobang have consistently cited success in agricultural reform as their most important achievement, and they are using it to push reform in other sectors.

2. Tasks for 1984 are to raise productivity, improve marketing and distribution of products, and produce more goods for market by improving the responsibility system.

He Kang, Minister of Agriculture, subsequently stated that expansion of the responsibility system in 1984 will focus on commune- and brigade-run enterprises, rural technologies, farm tools, animal husbandry in the grazing areas, and the fishing sector.

3. Peasant land contracts with the state are to be lengthened to at least 15 years. Longer contracts will be signed for projects such as fruit and timber production. Peasants who want to quit farming and engage in other enterprises are encouraged to subcontract their land to skilled farmers.

Contracts longer than the current three years were deemed necessary, we believe, to bolster peasant confidence that the current policies will continue. Peasants have been reluctant to invest their own labor and funds in land they may soon have to return to the state. Lengthening the contracts may be particularly important now, as some areas are redistributing their land to make plots larger and more economical. Such redistribution, according to the document, should be done only if the majority of peasants wish, and peasants should be reasonably compensated for any improvements they have made to their land. Only contracted land, and not the smaller private plots, is eligible for subcontracting. The peasants are free to negotiate the transfer, but it must be approved by the

collective. Subcontracting is designed to encourage peasant families to improve their production by specializing in one enterprise, which many have already done. Early this year 25 million peasant families, or 13 percent of the nation's total, were involved in full-time specialized production or trade.

Peasants and collectives are also encouraged to pool their money and become shareholders in rural enterprises, particularly those, such as mining, for the exploitation of natural resources.

Regulations allowing the hiring of up to two assistants or five apprentices are to be continued. The new regulations also state that enterprises which hired more workers than permitted but which show some degree of meeting the criterion of a cooperative enterprise should not be considered capitalist.

4. All state organizations are to vigorously support agriculture. Supply and marketing cooperatives and regional economic cooperative organizations are to expand and become rural multipurpose service centers.

The Agricultural Bank and credit cooperatives are to provide better financial services. Chinese media reporting indicates that a dramatic increase in funds has been made available in the countryside, particularly for households involved in specialized production. Such figures are unreliable, however, because there is no nationwide definition of a *specialized, key, or priority* household. And even local areas have had trouble designating the specialized households that are eligible for special loans and bonuses.

5. Procurement and transportation have not kept pace with the development of production.

Although the economy will remain planned, a call is made to decrease the volume and number of commodities procured by quotas, and the state will ease its

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control of some prices. This will improve distribution while lowering state procurement costs. Obviously, private enterprise and a market economy are expected to fill in the gap. Subsequent regulations indicate that peasants are free, once state quotas are filled, to market goods across administrative borders. To transport the goods, peasants are permitted, either individually or jointly, to form their own transportation services. They may own or lease motor vehicles, vessels, or tractors.

6. Local governments are to maintain public funds sufficient to cover their public-business expenses. Government organs are not to charge excessive fees for services performed in the countryside.

Peasants are to cut down on nonproductive expenses and reduce the number of cadre, although the salary for the remaining cadre should be reasonable. Government departments cannot require additional levies to finance services outside annual local budgets. Such fees were reportedly used last year to punish successful rural entrepreneurs.

7. Peasant families that leave farming by subcontracting their land are to engage in small industries or service trades in rural areas.

Beijing planners have said elsewhere they believe 30 to 40 percent of the rural labor force is surplus. By the year 2000, only 30 percent of the rural labor force is to remain in crop cultivation; 20 percent in forestry, livestock, and fishery production; 10 percent working in cities, factories, and mines; and 40 percent in local industry and services. Central Document No. 1 indicates that initial development will be focused on the fodder, food, building materials, and small energy industries. These industries are to develop in rural market towns, keeping peasants from migrating to major urban centers. Before yearend each province is to select small towns to develop as trial market towns.

8. Forestry, animal husbandry, and fishery policies are to be relaxed to encourage production.

Grass and trees belong to the person sowing them and are inheritable and transferable at a discount rate. The responsibility system should be used for both livestock and grassland management.

State farms are to continue implementing the responsibility system by contracting to households, or to mechanical farming teams in areas that are heavily mechanized. The farms may also sign contracts with nearby peasant families for products or services.

9. A nationwide cadre training program is to be established this year at the county level.

Cadre and technicians will receive training on a rotating basis in the next three to five years in politics, science and technology, and management. Rural cadre—low in education and scientific or management skills—have often delayed implementation of rural policies. Training courses will be designed to promote more responsive and efficient local leadership.

10. While supporting the new policies, the party must work harder to educate peasants ideologically and politically.

The easing of economic restrictions must be distinguished from unchanging ideological principles and standards for economic crime. Cadre who misuse the relaxed restrictions for personal profit are to be dealt with severely. The short shift given to ideology is an attempt, in our judgment, to avoid arousing confusion and debate in rural areas. The ideological justification for current rural policies is still highly contentious.

will probably be more willing to toe the line. Those with political connections or sympathetic superiors are likely to drag their feet even more. In either event, cadre ideologically opposed to the reforms are now more at odds with Beijing and with the peasants, particularly those families in specialized production earning much more than the cadre themselves. []

Prospects for 1984 Crops

Production this year will benefit from the implementation of the new agricultural policies and a continued rise in agricultural inputs. If the weather cooperates, China will reap its sixth consecutive bumper harvest. []

The 1984 winter wheat crop, which accounts for 85 percent of the total wheat crop, was sown in good conditions last fall. The area continued to expand slightly and the harvest could approach last year's record crop. The growing season has been dry in some parts of the North China Plain, but as of late May we see no major problems. []

Spring wheat in the northeast, which accounts for the remainder of the wheat crop, had adequate moisture for planting this spring. The early rice crop is progressing well in the Changjiang Valley, where wet weather has delayed the planting of intermediate rice, cotton, and coarse grains. []

It is still too early to determine any changes in sown area for fall-harvested crops. Projecting the planted area is further complicated this year by changes in the procurement policies for cotton. []

New Cotton Procurement Policy

For this year's crop, cotton will switch from the quota-procurement system to what is called the proportional method. Much like the quota system, this method sets in advance a base price and an increased price. But the proportional method simply divides total cotton production between the two categories according to a fixed formula. There are no negotiated sales. In the northern cotton area (north of the Chang Jiang), 20 percent of the cotton will be procured at the base price and 80 percent at the increased price. In the southern

area, 60 percent will be sold at the base price and 40 percent at the increased price.⁴ []

This method was used effectively last year to control rapeseed production. In 1982 more rapeseed was produced than the state could purchase and store. For 1983 the state set procurement levels, paying for 40 percent at the base price and 60 percent of production at an increased price. No state purchases of above-quota product were made. Consequently, peasants saw less profit in growing rapeseed and shifted more land and attention to winter wheat, which is grown at the same time. This contributed to the 24-percent decline in rapeseed and 19-percent increase in winter wheat production last year. []

Peasant response to the change in cotton procurement is difficult to predict. The changes appear designed to slow the growth in cotton production and further shift production from the southern areas to the north. Peasants in each area will be evaluating the weather at planting time and the profitability of growing cotton under the new guidelines. They will consider the abolition of both the 5-percent price subsidy for cotton produced in the north and the grain and fertilizer bonuses for cotton sales. State officials have emphasized that, unlike rapeseed, above-quota purchases of cotton will still be made. []

Trade in 1984

Sino-US grain trade will rebound from last year's low level, but total shipments may not reach 8.2 million tons, the level required to fulfill the 6-million-ton annual minimum called for in the bilateral Long-Term Grain Agreement (LTA), plus the 2.2-million-ton shortfall from the 1983 quota. Although the Chinese have periodically pledged to purchase the full amount, there was little market activity during the first four months of 1984. Purchases of US grain through April totaled only 3.2 million tons of wheat. Of this amount, less than half had been delivered,

⁴ Because production levels from previous years are used to establish the proportion procured at the base price, this formula is not as disadvantageous to the southern provinces as the ratios imply. []

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averaging 350,000 tons per month. Shipments must proceed at two and a half times this pace for the rest of the year to fulfill the LTA, which only counts grain that has left US ports by yearend. [redacted]

Chinese grain traders have shown more interest in early May, however. President Reagan's trip to China in April and the lower price of this year's US wheat crop have probably encouraged purchases. US grain traders now believe the Chinese are prepared to take delivery of the entire 8.2 million tons in 1984. [redacted]

We believe that it is optimistic to expect the Chinese will take delivery of the full amount by yearend. It is particularly difficult this year to assess Chinese intentions, or even their current level of purchases, because of Beijing's deceptive purchasing tactics. [redacted]

[redacted] contracts for 4 to 4.5 million tons of US grain have been made orally, but not in writing. Also, the Chinese have stated privately since late last year that they have purchased roughly 1.5 million tons of US grain that has not been entered in US export statistics; US firms report substantial grain sales to China via Japanese firms, which do not have to register the sale or destination until delivery. Japanese trading houses could also offer the advantages of lower interest rates and other nongrain concessions. Beijing's motivation for the secretive activity with US firms could be to purchase as much of the 8.2 million tons as possible before the market becomes convinced that China will purchase the full amount and prices rise. Even those grain traders who are convinced the LTA will be fulfilled must negotiate at a disadvantage because of their lack of information on Chinese purchases. Chinese traders are very astute in playing the US grain market. Their cancellation and subsequent repurchase of US grain in late May and early June, for example, netted China several million dollars from changes in market prices. [redacted]

Nonmarket factors again could play a part in determining this year's sales. Beijing continues to politicize grain trade by linking purchases to other bilateral irritants, such as the lack of a maritime agreement. If bumper harvests continue to fill all of China's grain storage, the ability to store the imported grain could limit China to purchasing, but not actually taking delivery of the entire amount before yearend. Grain imports from Canada and Argentina will decline this

Table 7
China: Long-Term
Grain Agreements

Million metric tons

	Annual Amount ^a	Duration
Argentina	1.0-1.5	January 1981-December 1984
Australia	1.5-2.5	January 1982-December 1984
Canada	3.5-4.2	August 1982-July 1985
France	0.5-0.7	September 1980-May 1983
United States	6.0-8.0	January 1981-December 1984

^a Actual sales are negotiated periodically during the agreement.

year to pre-1983 levels. Australia's sales should rebound following the drought-inhibited sales of last year. [redacted]

The Chinese have stated their desire to renegotiate the US-Chinese LTA which expires this December. China's domestic food supply situation has changed dramatically since most of its LTAs were signed four years ago (see table 7). That, coupled with a buyer's market for grain worldwide, places less pressure on Beijing to sign LTAs, as evidenced by the failure to renegotiate the agreement with France that expired in May 1983. But Chinese planners expect grain imports to remain strong in the near future, even with good domestic harvests, and LTAs would guarantee supplies. Thus, Beijing will probably try to renegotiate agreements with its largest suppliers, for both political and economic reasons, although it may press for more flexibility. For example, China may want to commit itself to lower minimum annual purchases or to averaging yearly minimums over the life of the agreement. [redacted]

Timber sales should rise again this year, marking the only other bright spot for US commodity trade. The Chinese could reenter the US soybean market to replace sales of their own higher value beans to Japan, but any purchases should be small with little or no impact on the market. [redacted]

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